

Agency, Institutional Change, and Continuity: The Case of the Finnish Civil War

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ABSTRACT The purpose of this paper is to study the role of individual agency in the process of institutional change. We conducted a historical study to explore the motivations and activities of two prominent individuals in business and politics before, during, and after the Finnish Civil War. Our most important finding is that the improvised actions of individuals with complex interests were causally related to long-term institutional changes. Specifically, our study contributes to theory development in the field of institutional analysis by showing how individual actors can be a mechanism for both institutional continuity and change. On the practical side, our account can help managers understand the power of improvised activities in the face of ambiguity and uncertainty, especially if there is the possibility of acting in concert.

INTRODUCTION

The role of agency in institutional change is controversial in organization and management theory (North, 1990; Selznick, 1996). From a structuralist perspective, individual actors are embedded in dense social networks (Nee and Ingram, 2001) and act according to routines and habits which originate in the preceding historical processes (Nelson and Winter, 1982). Even after radical exogenous shocks, such as regime revolutions, the structurally determined nature of agency stabilizes a volatile institutional system and contributes to incremental change (Clemens and Cook, 1999). From an individualist point of view, in contrast, actors are able to intentionally create new institutions (e.g. Garud et al., 2002; Oliver, 1991) and also effect societal-level changes (North, 1990). Thus, depending on the chosen perspective (methodological structuralism versus individualism), individual actors can be seen as a mechanism for both institutional continuity and change.

Although this complex link between agency and structure is recognized in earlier research (for reviews, see Emirbayer and Goodwin, 1994; Felin and Foss, 2006; Hay and Wincott, 1998; Hodgson, 2007), the literature lacks detailed examinations of the actual roles and activities of individual actors in the process of institutional change – accounts

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that might help us better understand the mechanisms that mediate both continuity and change (North, 1990). In this historical study, we address this shortcoming by examining how and why two particular individuals acted before, during, and after the 1918 Finnish Civil War. The Civil War catalysed the rapid creation of new legal institutions and was a turning point for the whole of Finnish society. The radical nature of this process provides a useful context in which to address the interaction between agency and institutional change (cf. Peng, 2003).

The study offers two substantial contributions to the management studies and business history literatures. First, we elaborate the idea that the different levels of an industrial system are interlinked during a period of regime revolution. Our central finding is that the problem-solving activities of powerful agents play a causal role in the emergence of new institutions. However, due to the complexity and speed of the process of institutional change, especially as actors perceive it (Das and Teng, 2001; Ordonez and Benson, 1997), their actions tend to be improvised and reactive (North, 1990). Consequently, the resulting institutional change is relatively unplanned and unpredictable even by these actors. Second, the paper illustrates the impact of civil wars and other types of radical political transformations on firm and industry evolution. Although rare in western democracies, civil wars (e.g. the upheavals of the past two decades in the Balkans) and regime revolutions (e.g. the collapse of the Soviet Union) constantly emerge in developing countries and transforming nation-states. We join the group of scholars who underline the important role of elite persistence and role swapping in business and government interaction during periods of institutional emergence (e.g. Borocz and Rona-Tass, 1995; Schneider and Teske, 1992).

THEORETICAL BACKGROUND

As Figure 1 illustrates, we may identify four different approaches to the role of agency in institutional change and continuity. In the following section, we review these approaches, summarize the accumulated conceptual knowledge, and address the research gaps in the form of three research questions. These questions drive our historical inquiry into the activities of individual agents in turbulent regime revolutions.

Path Dependence and Punctuated Equilibrium in Institutional Theory

According to North (1990), institutions are the informal and formal rules that offer both opportunities and constraints for organizational actions. Laws, norms, and practices reduce uncertainty by providing a structure for everyday life. The key idea in North's approach is the path dependent nature of institutional change.^[1] Although the concept of path dependence has gained increasing attention in the institutional literature (Mahoney, 2000; Pierson, 2000), several problems remain. Most importantly, it is analytically challenging to know to what extent an institutional setting is path dependent as in almost all situations the extent and direction of change is unquantifiable (Bennett and Elman, 2006; Sawyer, 2001). For this and other reasons, researchers have increasingly emphasized the importance of punctuated equilibrium in institutional development (Clemens and Cook, 1999; Tushman and Romanelli, 1986).



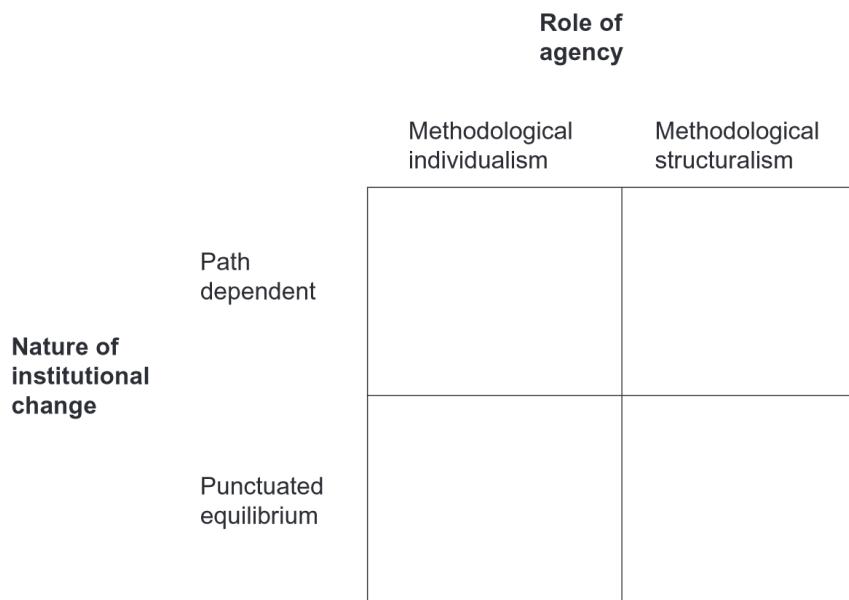


Figure 1. Approaches to the interplay of institutional change and agency

Punctuated equilibrium is based on the idea that radical institutional changes are especially likely as a consequence of exogenous shocks. In such contexts, periods of change differ considerably from 'normal' path-dependent institutional development. During these critical junctures^[2] the inertial properties of institutions are potentially lower. However, despite considerable scholarly attention to these punctuated equilibrium explanations, many scholars have challenged the *de facto* severity of change in critical junctures (Clemens and Cook, 1999). Even if some institutional elements may change dramatically (e.g. written laws), others may exhibit strong persistence (North, 1990). Also, many changes can be temporary; a system may return to its original development path even in a rapid manner. Finally, one may argue that punctuated equilibrium models underestimate the effect of learning and innovation in the midst of institutional change (Garud and Karnoe, 2003; Miner et al., 2001). Interestingly, all these caveats carry both explicit and implicit assumptions on individual agency.

Individual Agency and Institutional Change

In path-dependence explanations, individuals are the carriers of established schemas of 'how things work', sources of power resistance and stabilizing nodes in network structures (Gould, 1991). According to North (1990, p. 8), 'Incremental change comes from the perceptions of the entrepreneurs in political and economic organizations that they could do better by altering the existing institutional framework at some margin. But the perceptions crucially depend on both the information that the entrepreneurs receive and the way they process the information.' In turn, in punctuated equilibrium literature individuals can be seen as autonomous actors who 'transpose and extend schemas to new contexts' (Sewell, 1992, p. 18; see also Clemens and Cook, 1999), modify existing institutions (Beckert, 1999), and intentionally and skilfully design and implement



institutional changes (Fligstein, 1997). The research on institutional entrepreneurship (e.g. Garud et al., 2002; Haveman and Rao, 1997; Oliver, 1991) especially emphasizes how organizations can proactively affect institutional emergence and change in *de novo* situations such as a new technology or consumer market and thus prompt changes to the very context by which they are shaped (cf. Seo and Creed, 2002).

Conceptually, all the above approaches share the agency–structure problem (Peng, 2003; Sawyer, 2001). That is, to what extent do individual level actions explain higher order processes such as institutional change? First, institutions can be collaboratively created by individuals. However, the emergent properties of such institutions are irreducibly complex, and thus cannot be reduced to individual properties and action (Sawyer, 2001). This means that no institutional change can be fully designed (North, 1990). Second, methodological individualism raises unrealistic expectations of the individual's capacity in information processing and decision-making (cf. Kiesler and Sproull, 1982; March and Olsen, 1989). In particular, to expect intentional and skilful entrepreneurial activities in complex situations which may have several equilibria is highly optimistic (e.g. Garud, 2008; Ordóñez and Benson, 1997).

Third, no institutions are created *de novo*. This means that although individuals may have the capacity to make changes, they are also products of the preceding institutional setting and social structures (Hodgson, 2007; Lewin and Volberda, 1999). For example, scholars who study societal transformations in Eastern Europe have shown that social structures are surprisingly persistent even in regime revolutions (Hanley et al., 1995; Nee and Cao, 1999). This does not change the fact that 'someone must pull the trigger' in situations that lead to institutional changes (Coleman, 1984). As Hodgson (2007, p. 95) aptly states, 'the solution to the agency-structure problem is not to walk away from it, or to pretend it does not exist'.

In terms of empirical research, as already noted by Selznick (1957, p. 4), the 'problem is to link the larger view to the more limited one, to see how institutional change is produced by, and in turn shapes, the interaction of individuals in day-to-day situations'. Accordingly, if we want to understand institutional change and agency better we need to identify in a microscopic manner the causal pathways that lead to tangible change (cf. Bennett and Elman, 2006). The key motivation for our study is that the agency–structure dilemma lacks historical evidence that would reveal the *de facto* activities of individual actors who are embedded in their social context, and who are most probably also heavily habituated by social networks and earlier institutional states. A historical approach has the potential to help in the identification of the dynamics between different analytical levels per the realized outcome. In this spirit, it is logical to ask: (1) What do individuals think and do in the midst of a critical juncture leading to radical institutional change? (2) What kind of motivations, interests and societal roles drive their actions? and (3) What is the causal relationship between the agents' intentions and the final outcomes in terms of the extent and characteristics of institutional change?

RESEARCH SITE AND DRAMATIS PERSONAE

There is widespread consensus in Finnish sociological and historical literature that Finland went through a critical juncture in 1917–19 (e.g. Haapala, 1995; Manninen,



1992–93; Rautkallio, 1977; Ylikangas, 1986). This period included Finland's Declaration of Independence, a Civil War,^[3] a phase of strong German political and economic influence, and an orientation towards Western countries. As a representative case of regime revolutions, the critical juncture caused deep socio-political changes in the business environment. For example, after the Civil War industry associations obtained an access to political processes which has later come to be seen as an indicator of Nordic corporatism, in which economic policy is made in the triangle of business representatives, government, and labour unions (e.g. Hjerpe, 1989; Pekkarinen et al., 1992).

To specifically study the institutional field of the Finnish paper industry during this period is warranted in several respects. First, the paper industry was the largest industrial sector in an otherwise agrarian economy; paper companies accounted for the majority of foreign trade revenues. Second, the industry's relative economic and social status significantly increased after the Civil War.

As Table I shows, notable changes occurred in the dominant firms and individual actors in the process from the 'old' institutional setting to the 'new' institutional setting. Before the critical juncture there was only one dominant firm, Kymi, and several small and medium-sized paper mills. Kymi's importance diminished to some extent after the local workers executed CEO Gösta Björkenheim, known as 'the Paper King of Finland', just before the end of the Civil War. United Paper Mills, in turn, emerged after the war as a powerful rival, with Rudolf Walden as its leader and primary owner. The firms controlled by Gösta Serlachius also grew in significance to become one of the three most important enterprise groups in the industry.

In terms of individual leadership, the industry was fragmented before the Civil War. This situation changed dramatically during and after the war. In particular, service in the White Army headquarters catalysed a rise of new individuals who later in the 1920–30s were promoted to powerful positions in the Finnish paper industry firms, in industry associations, and in Finnish politics.^[4] Despite the rise of a new generation of business and industry leaders, earlier literature (e.g. Heikkinen, 2000; Kuisma, 1993a) and the firm and actor-level analysis indicates that two individuals, Gösta Serlachius and Rudolf Walden, held the most central positions in the Finnish paper industry during the critical juncture. Both were intensively involved in all of the major processes that generated the most significant institutional changes in the paper industry. Thus, Serlachius and Walden may be seen as prototypical examples of *potentially* powerful agents (cf. Udehn, 2002). In essence, Serlachius and Walden function as a prism that allows one to study the entire process of institutional change and its consequences.

Serlachius was a nephew of the founder of the Mänttä Paper Mill, G. A. Serlachius. He started his career at the beginning of the century by leading two companies in crisis (Kangas Paper Mill in 1904–08; and Kymi Corporation 1908–12) to successful turnarounds. From then on, Serlachius continued as the leader and main owner of Mänttä Paper Mill, but he also acquired stock in other paper mills. In 1915 he founded a joint sales company that arranged the Russian sales of the three firms in which he had financial interests. In addition, Serlachius worked with various industry associations and was positively disposed to wider cooperative activities in the paper industry (Ahvenainen, 1975; Norrmén, 1928; Pajunen, 2006).

Table I. Attributes of the process from 'old' institutional setting to 'new' institutional setting

<i>Attributes</i>	<i>Golden age (-1917)</i>	<i>Russian Revolution (1917)</i>	<i>Civil War (1918)</i>	<i>German regime (1918)</i>	<i>Western orientation (1919-)</i>
Organization of sales	Mostly firm-specific. Geographically constrained (Finland/Russia). A few short-term and product-specific export cartels organized by inter-firm contracts.	Mostly firm-specific.	Highly regulated as a part of the military economy.	Centralized and legally enforced sales associations and cartels.	Centralized and legally enforced sales associations and cartels.
Organization of political activities	Mostly actor-specific. Some activities in Russia in the context of the sales contracts.	Actor- and firm-specific.	Actor-specific.	Actor-specific.	Systematic organization for activities in the political field. Active involvement especially in foreign trade policy.
Key firms	Dominant: Kymi. Four or more paper machines: Nokia, G. A. Serlachius, Walkiakoski, Leppäkoski. Three machines: Frenkell, Kangas, Kuusankoski, Jämsänkoski, Myllykoski, Tervakoski. Two machines: Tornator, Simpele, Läskelä, Oy Suomen Vanutehdas. One machine: ca. 7-8 firms.	Dominant: Kymi. Four or more paper machines: Nokia, G. A. Serlachius, Walkiakoski, Leppäkoski. Three machines: Frenkell, Kangas, Kuusankoski, Jämsänkoski, Myllykoski, Tervakoski. Two machines: Tornator, Simpele, Läskelä, Oy Suomen Vanutehdas. One machine: ca. 7-8 firms.	Dominant: Kymi, United Paper Mills. Followers: Firms of Gösta Serlachius (e.g. Mänttä, Kangas, Leppäkoski), Nokia, Walkiakoski.	Dominant: Kymi, United Paper Mills.	Dominant: Kymi, United Paper Mills.
Key individuals	Owners and managers of the biggest firms. Managers of the Paper association (e.g. Gösta Sumelius).	Gösta Björkenhein (Kymi), Gösta Serlachius, (Rudolf Walden).	Rudolf Walden; Gösta Serlachius, Axel Solitander and some other officials.	Rudolf Walden, Gösta Serlachius, Axel Solitander, Einar Ahlman (Kymi), and in some respect the other members of Fimppap cartel.	Rudolf Walden; Gösta Serlachius, Axel Solitander, Einar Ahlman (Kymi), and in some respect the other members of Fimppap cartel.

During the 1918 Civil War Serlachius served as a Chief of the Equipment Section of the White Army and also got better acquainted with Rudolf Walden, the Manager of the Service Section of the White Army. Walden had graduated first in his class from the military academy in 1900. However, Walden did not accept the intensifying Russification actions, and as early as 1902 he decided to resign from the military. Shortly afterwards, he began working for the paper industry, initially as an accountant for a Russian paper mill and subsequently as the manager of a Finnish-owned printing house and paper agency in St Petersburg. In 1911 Walden started his own paper agency business. He got the agency for Simpele Paper Mill and gradually began to buy shares in this firm. Later he also received the agencies for Myllykoski, Jämsänkoski, and Kajaanin Puu. In 1917, after Walden returned to Finland, he presented a plan that the mills under his agency in St Petersburg should found a joint sales company. The plan was approved and a 'central office' was founded which was also the first step towards the foundation of Walden's paper conglomerate, United Paper Mills (Juva, 1957).

METHOD

Management scholars have emphasized the importance of historical method when studying processes that cross analytical levels and include complex causalities between actors and events (e.g. Kieser, 1994; Pettigrew, 1985; Porter, 1991). To some extent, the promise of historical method has been fulfilled in the context of process research (Pettigrew, 1997), in the evolutionary analyses of firm and industry development (Cattani, 2005), and in institutional research (Holm, 1995). Following this research tradition, the research strategy of this study combines deductive and inductive modes of inquiry.

On the one hand, theoretical knowledge is both the means for, and the end of, our work. It is the means since the conceptual framework, materialized in the form of research questions, provides guidelines for the data analysis. It is the end as our aim is to improve the theoretical knowledge of the agency–structure dilemma in institutional analysis. On the other hand, we follow the rules of inductive historical inquiry. Our methodological philosophy builds on the classic tradition of historical research (e.g. Carr, 1961; Collingwood, 1956). In a nutshell, the strength of the historical method is its ability to open access to the habitual or personal level of agency (Gaddis, 2002; Hodgson, 2007), and thus provide an opportunity to combine temporal, personal, and spatial elements into causal analysis (Bennett and Elman, 2006).

Our starting point in the data collection was to include all relevant material that could provide information on the evolution of the Finnish paper industry during this period, in particular at the levels of the institutional setting and the individual actors as suggested by the theoretical framework. We began our data collection with a thorough examination of existing historical studies (e.g. Heikkinen, 2000; Kuisma, 1993a, 1993b). This phase resulted in a consensus-type understanding of the coarse-grained process characteristics prior to, during, and after the focal period of 1917–19.

After the initial library research, we engaged in archival work. We were able to consult the archives of the largest Finnish paper companies, the Finnish military archive, the archive of the Ministry of Foreign Affairs of Finland, and, in particular, the collections of



focal individual owners and executives (see Appendix). The historical documents provide rich, first-hand accounts by our focal actors of the chain of events in the process of institutional change as they participated in and experienced them. Thus we did not need to rely on secondary sources that are potentially influenced by retrospective bias. The data offered a unique opportunity to study agency in a process of institutional change, as written documents were a primary means of communication in the early twentieth century. For example, the correspondence of Gösta Serlachius includes several hundred letters from this period.^[5]

A lack of retrospective bias does not automatically mean that the documents convey correct information. Letters typically capture a particular moment and illuminate what fragmentary information the actors obtained when making decisions. However, in hindsight we can see more clearly both the context and the meaning of embedded actions. Therefore, we formulated questions regarding each document, to ascertain the kind of document, the writer, the motive or potential bias of the producer of the document, the source of the information the document conveys, the reasons for writing the document, its function within the larger context of the process, and the official and unofficial addressee. After that, we were able to triangulate the data obtained from different sources and determine if there were differences or inconsistencies in the information conveyed on the same issue. As a result, we obtained a robust basis from which to develop a plausible impression of the process.

HISTORICAL ANALYSIS

The ‘Golden Age’

Before its Declaration of Independence in December 1917, Finland was an autonomous part of imperial Russia. The late nineteenth century and early twentieth century economic growth and increased demand for paper in Russia resulted in many business opportunities for Finnish-based paper industry companies because of Finland’s position inside the Russian tariff-area. At the outbreak of the First World War in 1914, Finnish firms were leaders in the Russian market, with a market share up to 30 per cent (e.g. Pihkala, 1970). Western markets were of marginal importance for Finnish firms, even if some individual actors, such as Gösta Serlachius, recognized the need to diversify the paper trade to Western Europe and the Americas (Pajunen, 2006). Furthermore, the political status of Finland as an Autonomous Grand Duchy of Russia meant that the maintenance and management of political issues were of secondary importance (Kuisma, 1993a). In the Russian political market, a handful of experts lobbied for the interests of the Finnish companies. Otherwise, the political aspect of business was not a major concern in Finnish companies.

The period between 1850 and 1916 can be seen as a ‘golden age’ for the Finnish paper industry. The demand in the Russian market increased constantly, and there was no fear of losing the market. Even during the First World War, which did not extend to Finland’s territory, the demand for paper in Russia continued to rise due to the increasing importance of newspapers in military-political propaganda (Pihkala, 1970).

As Figure 2 illustrates, the positive trend in the paper industry continued until the Russian Revolution in March 1917. Thereafter, the political and economic situation



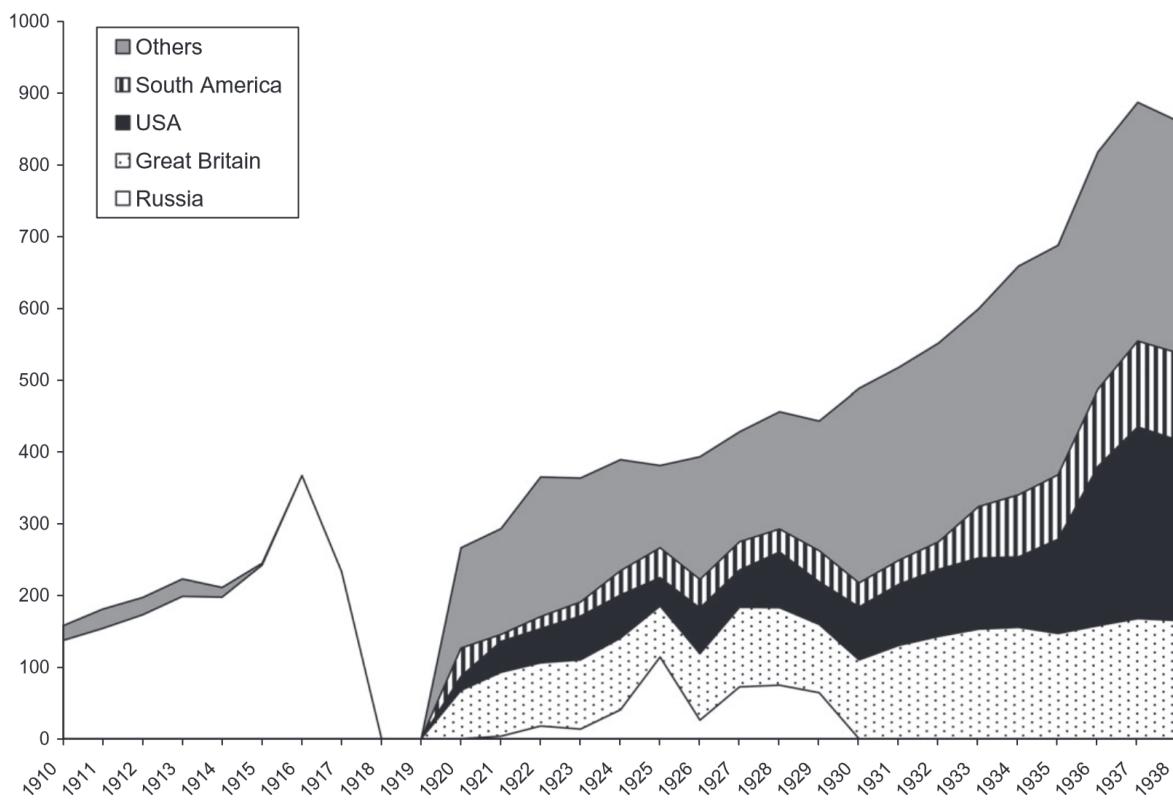


Figure 2. Volume and country structure of Finland's newsprint exports 1910–38. Millions of 1938 Finnish marks

Source: Ulkomaankauppatilasto 1919–38, Pihkala (1968).

became increasingly unstable even if, in October 1917, only a month before the Bolshevik Revolution, the paper trade continued to exhibit positive signs. As Gösta Serlachius wrote from St Petersburg to his paper mill on 20 October 1917:

... as you can see I have been able to sell orders very well. The reason is that prices are excellent, that payments follow in Finnmarks, and that we have received big advance payments ... The stockpile orders you can put aside. I have promised first to execute the orders with the highest price and those with the biggest advance. Because the orders are big, some of them have to be sent immediately and others later. (Serlachius to G. A. Serlachius Ab, 20 October 1917, GAS)

From Serlachius's personal point of view, too, the visit to St Petersburg was successful. As he noted in the same letter: 'It is an excellent opportunity to buy fine antique articles, and I have already acquired some.'

The Bolshevik Revolution and the Closing of the Russian Markets

The Bolshevik Revolution had an immediate effect on all business activities in St Petersburg. However, Finnish businessmen still believed that they could sell to Russia

and, in particular, to the southern and western parts of the country where the ‘white’ Russians ruled. In this spirit, Serlachius instructed his paper mills in the following manner:

We have to first manufacture the Finnish orders and the direct Russian orders that are sold . . . After these are done, we have to think about what kind of papers we can manufacture to be held in stock with the smallest risk. We have to remember that big changes may occur before we are able to sell the stockpiled paper. (Serlachius to G. A. Serlachius Ab, 4 January 1918, GAS)

Two weeks later he continued:

Some of our workers and suppliers may have got the idea that we are not very strict with costs. Because this kind of attitude may lead to waste and because the circumstances in industrial life have taken an unfortunate turn, I ask that you underline the importance of wise economy in all areas and bring costs down in all areas. It also has to be ensured that these instructions will be implemented. (Serlachius to G. A. Serlachius Ab, 18 January 1918, GAS)

Despite the difficulties faced in everyday operations, the managers still believed in the long-term market potential of Russia. However, in the short term, new markets were needed. Thus, at the beginning of January the idea of possible trade with Germany received increasing attention. Rudolf Walden analysed this situation as follows:

. . . the collective meeting of the paper factory managers decided to do the possible foreign selling together. Director Bensow will soon leave to examine the situation in Germany and Denmark. We also decided to join all our energy to get contacts in the Ukraine and in the Cossack area. (Walden to Ingvald Sourander ,12 January 1918, RW)

Two days later he continued:

It seems to be very unsure how we will be able to keep the factory alive this year or even at the beginning of this year . . . we will get a break-even result . . . After the weekend holidays we have to do our best to get some light to the Russian markets. It seems dark. It is also our immediate aim to take action regarding Sweden, Denmark, Germany and Holland. Swedes are selling [big amounts] of spin paper to Germany . . . we should immediately consider this article . . . but keep that secret . . . (Walden to Ingvald Sourander, 14 January 1918, RW)

The Civil War

As a consequence of the new political situation in Russia, the Finnish parliament declared Independence in December 1917. Although a landmark in Finnish history, the decision did not immediately affect business. International recognition of independence



took time, as did the political and administrative reorientation of the country (for an overview, see Hjerppe and Lamberg, 2000). Moreover, the initial balance of political power in the new nation proved unstable and the political situation soon became chaotic. Nearly 40,000 Russian soldiers remained in the country. Following the Russian example, the Finnish industrial labour force and leftist peasants formed paramilitary Red Guards. For their part, the industrial elite, the middle class, and other peasants organized similar paramilitary groups in all parts of the country. Finnish officers who had fought in the Russian army returned to Finland. Just before the outbreak of the Civil War, these Finnish officers started to form the White Army under the leadership of C. G. Mannerheim.

Prompted by this underlying social and political conflict, Finland drifted into civil war in January 1918. The Civil War officially broke out on 28 January, when Commander-in-Chief Mannerheim ordered that the disarmament of Russian soldiers should begin in Ostrobothnia.^[6] Almost immediately the whole of southern Finland was at war. The first military operations were chaotic rather than organized. However, quite soon the White Army, supported by some German troops, was able to dominate the war and defeat the Red Army, which was supported by some Russian units. The last Red units surrendered in the beginning of May 1918.

Already before open conflict emerged, the crisis had expanded at the local level. Starting in the fall of 1917, labour organizations had organized large-scale strikes at the paper factories. In consequence, production had already declined. However, despite the war, managers attempted to continue production. The following quotation from Ingvald Sourander's letter to Rudolf Walden illustrates the situation:

The local civil guard is not equipped with sufficient arms. If work stops in the factory, it will lead to all kinds of violence, which will also be bolstered by hunger. The civil guard has promised weapons for us every day, but in Saturday's delivery we got only seven rifles, which is all too few in order to maintain security. We need at least twenty rifles with necessary bullets to have good security if the factory is closed. (Sourander to Walden, 25 February 1918, RW)

The situation was severe. Finnish businessmen not only attempted to control their own factories but also engaged in military operations (Lamberg, 1998). The formal organization of the White Army was ready a few weeks after the outbreak of the 1918 Civil War. Since Finland had had no military organization of its own, the army had to be recruited from volunteers. Civilians – factory owners, landlords, and professional managers – assumed crucial positions in the White Army, especially regarding economic questions. Specifically, in January 1918 C. G. Mannerheim appointed the Special Staff of Engineers to conduct economic policy tasks and to assume control of foreign trade. The senior officers of the Staff were businessmen and engineers who had previously worked in Finnish industries. The Managing Director of the Staff, Gustaf Aminoff, was responsible to the Chief of the Equipment Section, Gösta Serlachius, and to the Manager of the Service Section of the White Army, Rudolf Walden. Accordingly, Serlachius and Walden became the key actors in the economic organization of the army.



Despite their official duties in the army, Serlachius and Walden were in regular contact with their factories in terms of 'normal business' and personal issues. Thus, throughout the seemingly chaotic times, the leading figures of war and business handled several tasks simultaneously. For example, in February 1918 Serlachius writes to his company:

Richard Söderlund, a Swedish citizen, will travel to Mänttä in order to restore the antique furniture I bought from St Petersburg. He should be a politically trustworthy person. (Serlachius to G. A. Serlachius Ab, 14 February 1918, GAS)

Most of the issues, however, related to difficulties in business and the planning of future sales. In March 1918, Serlachius wrote to the factory director of Mänttä, Rafael Forss (also in military service), telling him to travel to Germany to examine sales prospects there. Simultaneously, Serlachius communicated with his sales offices in different parts of Russia. The primary questions were the condition of their paper stocks, their receivables, their money situation, and the development of the overall political and market situation.

In addition, Serlachius and Walden received information from Sweden that the local paper mills had been forced by the neutral government of Sweden to decrease their sales to Germany. This was interpreted as a favourable situation for the Finnish paper mills. Nevertheless, the Finnish firms faced obstacles operating as solitary players in the 'organized markets' of Germany. Accordingly, Germany was far from an instant solution to the vanishing Russian market. Walden emphasized the severity of the situation confronting his mill:

Because there are absolutely no signs of improvement in the market, there is no reason to start paper machine II or to hire new employees. (Walden to Simpele paper mill, 15 April 1918, RW)

German Regime: From War to the Establishment of New Markets and Industry Cartels

The Special Staff of Engineers had been created to take care of the military needs during wartime. However, the leading officers felt that the organization would be unable to take responsibility for post-war non-military issues. When the defeat of the Red Army seemed probable in April 1918, Serlachius and Walden, among other officers, recommended that the Senate of Finland should create a civil organization which would replace the Special Staff (Lamberg, 1998). Consequently, the Senate of Finland decided in April 1918 to create a Trade and Industry Commission with the task of supervising trade and industry, including the export and import trade. It was stated in its founding regulations that the chairman and the members of the Commission were to be chosen from 'the leading representatives of industry, trade, banking, agriculture and also state administration' (Decision 50/6 June 1918, FS). In practice, the top personnel of the Staff of Engineers moved to the new organization. Consequently, the formative period of the new trade policy institutions/organizations was characterized by the influence of a small group of people who integrated the private sector into the political decision-making



machinery. At this point the business elite saw themselves as the only viable group to manage the turbulent period after the Civil War and during the remainder of the First World War. As the Central Chamber of Commerce wrote to Gösta Serlachius on April 1918:

Diplomatic dilettantes and newcomers must give way to experience and knowledge won in the field of business, always keeping an eye on the interests of our major natural export industries. (A letter from the Central Chamber of Commerce to Serlachius, April 1918, TIC)

Accordingly, during the Civil War private business became public, or vice versa. Simultaneously, it became clear that all efforts had to be put into finding new markets, especially in Germany. However, trade with Germany followed very different rules than the paper industry managers were used to. In order to create functioning trade relations with Germany, the Trade and Industry Commission had to create national cartels. The official reason for cartelization was that Germany had granted export permits for German commodities in certain important categories (for example, grain) only if the buyer was a state or government-related concern (Heikkinen, 2000).

The Trade and Industry Commission further justified the establishment of cartels by maintaining that this was a means of preventing speculation, and would also make control of foreign trade easier by promoting centralization (Hjerpe and Lamberg, 2000). However, the main reason for establishing cartels was the individual Finnish firms' lack of strength in competition with the German cartels and large companies. These reasons were particularly weighty in the creation of sales cartels within the paper and pulp industries. Anxiety about the economic rise of Germany is very obvious in a memorandum by the Trade and Industry Commission on the regulation of foreign trade, dated September 1918:

We must also defend ourselves against the economic takeover aspirations of Germany. We must found export cartels to counter the German system. If some company does not want to join the export association, the government must cancel its export licenses. (Memorandum, September 1918, TIC)

As a result, the Finnish Paper Mills' Association (Finnpap) was officially established on 2 July 1918 to serve as an all-inclusive sales cartel of the Finnish paper producers (Heikkinen, 2000). Serlachius and Walden had preliminary ideas of such an organization, and after the war they felt it was time to call the Finnish paper industry to the same table. The paper industry was the first industry in Finland to be systematically organized.

Germany was not just a potential market for paper but also a transit area to other markets. Before the Russian Revolution and the Finnish Civil War, the firms of Serlachius had sold paper to the areas of Kiev, Samara, and Odessa. Although Serlachius tried to liquidate the remaining paper stocks in these cities, he still had strong hopes for these areas. In particular Ukraine, which had become an independent nation, and was also an

ally of Germany, seemed attractive to him. Accordingly, after the end of the Civil War, Serlachius insisted that they should find markets in Ukraine. However, as he notes to Einar Ahlman:

There are difficult questions . . . Germans, for example, do not want to give transit permission to Ukraine through Germany. The prices are higher in Ukraine . . . [there is a danger that] after a short period of time we would be unknown in these important markets. (Serlachius to Ahlman, 21 June 1918, GS)

After the founding of Finnpap, Serlachius and Walden, now eminent leaders of the Finnish paper industry, decided to travel to Ukraine. But before that, the transit question had to be solved. After some intensive rounds of negotiations in Berlin, German authorities finally agreed to grant permission on the condition that the Finns would sell a particular amount of paper to Germany at a predefined price that was lower than the price level in Ukraine.

The trade negotiations in Ukraine proved long and difficult, but they finally led to satisfactory results. Indeed, as Walden wrote to his wife: 'prices are . . . fabulous' (Juva, 1957, p. 124). An interesting aspect of this official travel was the ambivalent position of Serlachius and Walden. First, they represented the government, as one target for the trip was to acquire sugar, grain, and concentrated feed for Finland. Second, they represented the group of Finnish paper mills and, especially, Finnpap. Third, they were owners and managers of paper mills themselves. Thus, it was not surprising that Serlachius also kept his mills updated:

We have only bad quality tobacco paper in our stock here . . . The demand for [a particular paper sort] is fairly big, and therefore I invite you to immediately make the patent clear, so that the production can start. This is the work that has to go before anything else . . . We cannot pass up our destiny because new nations are emerging every day. I also remind you of the patent rights in Germany, Austria, the Balkans, etc. I hope that you already have three machines in motion that will be soon ready to produce as much paper as ever possible, because the prices which we will receive from here will provide us with good results for two to three months. Do your best to get all the machines working. (Serlachius from Kiev to G. A. Serlachius Ab, 30 August 1918, GAS)

A few days later he continued:

We have received big orders from four customers. The price we confirmed, after we had taken care of all the possible states of affairs in this interesting nation, was accepted without question . . . One of our machines could become a special machine . . . I think we could make two different qualities: normal tobacco paper and half bleach. I hope that I will have proofs ready when I come back . . . You have to control and improve the wrapping. It does not matter if that costs something. We have to take care of the customers' interests because the price is so good. (Serlachius to G. A. Serlachius Ab, 6 September 1918, GAS)



Thus, Ukraine seemed a promising and already familiar area for the paper trade, from the point of view of both Serlachius's and Walden's personal interests and the Finnish paper industry in general. What is more, Serlachius and Walden still believed that the rule of the Bolsheviks in Russia would collapse, and that they would eventually win back their most important market areas. From this perspective as well, the location of Ukraine was seen as being advantageous.

The Focus on Western Markets

The new contracts in Ukraine were a positive sign for the Finnish paper industry. However, changes in domestic and world politics again complicated the situation. After the war, Finland's political and economic life underwent a series of dramatic changes before a relative stabilization around 1919 and 1920. For example, Parliament had decided that Finland would become a kingdom, and a German prince had already been nominated to be King of Finland. However, in November 1918 Germany collapsed and this plan was cancelled. The Bolsheviks invaded Ukraine and the Baltic countries, which were transit areas for Finnish paper to Germany and Ukraine. As a result, the embryo market area of Ukraine and much of the German market was lost. The paper industry had to turn its efforts towards new market areas. This was accomplished with amazing speed. In just two years, economic relations with Western countries were stabilized. As Figure 2 shows, the exports of the paper industry shifted to new markets in England and the United States, and totally new markets, such as South America.

Entering new market areas was not uncomplicated. Serlachius, as a representative of Finnpap and as a member of the Finnish trade commission, travelled to London, where he had some pre-war paper industry connections.^[7] On this trip he also visited Sweden and Norway to discuss the options for broader Nordic cooperation and cartels, but these negotiations were not productive. In London, Serlachius started to scan the local paper agencies. He soon found out that the situation in the UK markets was not very promising, and that his assignment was fairly complex. As Serlachius reported to his company:

You have not sent me anything. You should send at least one telegraph per week even if nothing important happens. In so doing I know that you are kept informed. Certainly, I have to admit that even I have been silent, but the reason is that here are several matters I have to get oriented to before reporting, and the general interests [of Finland] have to go before the paper interests . . . Because we have not had agents here thus far and nothing is normal here, our work has not proceeded as we wished, but now as we are accepting some agents sales may start . . . but we have some difficulties that need to be solved before the sales can start. (Serlachius to G. A. Serlachius Ab, 15 February 1919, GAS)

After the initial difficulties, Serlachius made contracts with two agents regarding Finnpap's sales in the UK and North America. The board of Finnpap was surprised at Serlachius's fast actions and the decision to give the North American markets to one agent, H. Reeve Angel & Co. However, Serlachius stated that it was necessary to explore

all potential markets, and that the sales network of H. Reeve Angel & Co in North America made that possible. The board of Finnpap just noted that 'the concluded contracts are agreed facts' (Board of Directors meeting, 14 March 1919, item 2, AF).

Despite the fact that the agent question was resolved, Serlachius could not fully trust that the UK markets would solve the difficult situation of the Finnish paper mills. They also needed to find other markets, to hope for the best regarding Russia, and to try to bring production costs down. As Serlachius reported to his company:

The commission now has an official assignment to Italy, and if I hear that there could be demand for Finnish paper, I will follow the commission. It is presumable that we can win some of the German positions in the Italian paper markets. And because the present Russian markets are so insecure we have to do everything we can in order to win new sales areas . . . We may soon send some orders for you, but because the situation is not stabilized, we cannot drive our factories at full speed. Several machines in Sweden, Norway, England and America are closed. In this situation it would be madness to go at full speed and produce paper for stock if we do not know where it could be sold. You have to reduce the paper production . . . [and] try to cut the costs. (Serlachius to G. A. Serlachius Ab, 6 March 1919, GAS)

From England Serlachius continued directly to France to make a similar reconnaissance regarding potential agents. He could not find competent firms and suggested that Finnpap should build its own organization in France and, indeed, immediately started to make arrangements for a sales office. However, the Kymi Corporation disagreed with this approach and, finally, an independent sales agent was found who assumed the agency of France. While the collapse of Germany had again changed the market environment, a new sales agent network was relatively rapidly constructed, with Serlachius as the leading builder. Nevertheless, during 1919 and 1920 the Finnish paper industry experienced hard times. The market areas and saleable products changed several times. As Rafael Forss, the manager of the paper mill, reported back to Serlachius in April and May 1919:

We have stopped one machine and two are running. Grönvik announced that the prices in England are going down about 50 per cent, so the prospects are not bright. And the situation in the country is and will be nervous because one mill after another is finishing or reducing their production. (Forss to Serlachius, 17 April 1919 and 20 May 1919, GS)

The new arrangements in England and France were ultimately a success, even from the perspective that the Russian markets did not reopen. During the first years of the 1920s the number of orders gradually increased; 1922 was already a profitable year in all respects.

Epilogue

The period after the Russian Revolution was one of trial and error in which a handful of leading businessmen grappled with and solved problem after problem. The period left



enduring marks on the Finnish paper industry as an institutional field. The first important new political and economic institution was the legally enforced cartel system which persisted until 1996. In fact, the majority of the Finnish paper companies never built their own marketing organizations after the collapse of the Russian market.

Second, the Civil War and its aftermath meant a rising political interest among the paper industry companies. Suddenly, the new independent political system simultaneously offered opportunities for companies and needed the expertise of business people. Immediately after the crisis and also during the 1920s and 1930s, the Finnish business elite came to dominate all issues in foreign trade and industrial policy. The 'diplomatic dilettantes' of the Foreign Ministry relied on the expertise of the paper industry companies and special interest groups in the continuous trade agreement negotiations which were needed in the creation of new markets. In a sense, the blueprint for the Finnish political institutions, in which business interests were formally integrated with overall societal issues, was created during the Civil War and its aftermath. The leading figures of Finnish business, especially Walden and Serlachius, were not passive followers in this process. On the contrary, they proactively aimed at the creation of a political system that would be favourable for business and was in line with their ideological worldview.

Finally, the critical juncture of 1917–19 meant a change in how the companies interpreted their markets. During the regime of imperial Russia, trade in paper goods had the flavour of domestic business, as the major market was familiar and close to production facilities. After the Civil War, however, the same companies were forced to seek alternative markets even in very distant locations. Simultaneously, the paper industry companies started to see themselves as international companies, competing with Swedes, Germans, and other previously dominant actors in the international markets. Slowly, this new state of affairs transformed the Finnish companies. They adopted new business models which included an increasing awareness of international markets and technologies, foreign direct investments in established Western European countries, and finally, a leading position in the global paper industry in the 1990s. It is likely that without the drama of 1917–19 this process of internationalization would not have been realized or institutionalized as a rule-system.

Serlachius and Walden also remained as the leaders of the interwar Finnish paper industry. Besides having key positions in Finnpap, they continued to build their own paper empires. In 1920, Walden became the leader and main owner of United Paper Mills (UPM), a firm that, after some notable mergers and acquisitions, became one of the biggest players in the global paper industry. Serlachius's conglomerate also continued to grow; it is now a part of M-Real, the third biggest paper producer in Finland after Stora Enso and UPM-Kymmene.

DISCUSSION AND CONCLUSIONS

The goal of this historical study was to address the role and importance of individual agency in a process of radical institutional change. Essentially, we provided evidence of the activities of two key individuals, Gösta Serlachius and Rudolf Walden, during the regime revolution in Finland. Three research questions guided our inquiry: (1) What in practice do individuals think and do in the midst of a critical juncture? (2) What kind of



motivations, interests, and societal roles drive their actions? and (3) What is the causal relationship between the agents' intentions and the final outcomes in terms of the extent and characteristics of institutional change?

In response to the first question, we found that the key actors' activities did not quite support the forward-looking agency that institutional entrepreneurship literature has promoted (for an overview, see Leca et al., 2008). Most importantly, in our context, the time horizon of Serlachius's and Walden's actions was dramatically short. The new and unexpected issues were solved when they emerged. There was simply no time for rationalized and procedural decision making. Thus, the behaviour of Serlachius and Walden could be better characterized as bold improvisation rather than deliberate institution-building.

In response to the second question, our findings demonstrate a mix of motivations, roles, and interests driving the activities of the key actors. Serlachius and Walden were simultaneously patriots, self-interested business and institutional entrepreneurs, creators of new practices, and conservators of old structures. For them, there were no clear boundaries between business and politics. The development of the Finnish national economy was seen as being intertwined with the interests of their paper mills, and consequently, the personal economic (and ideological) interests of Serlachius and Walden. However, it is another question if this mixing occurred consciously (i.e. a rent-seeking activity, e.g. Baumol, 1990) or merely as a routine-based reaction (mindless action; Langer, 1997). However, our study offers strong evidence for the importance of reactivity and short-term opportunism (cf. Collier, 1999) and less for the significance of calculation and strategic foresight.

In response to the third research question, individual agency clearly mediated changes in some elements of the institutional system. We may even demonstrate a straightforward relation between the activities of the agents and the emergent new institutions (e.g. the cartel organization). However, the new institutional arrangements did not emerge from a void, but were conditioned by prior social structures (Holm, 1995). That is, many of the social structures of the prior system survived and affected the activities of the individual agents. As in more recent regime revolutions, the *dramatis personae* originated in the earlier institutional norms and carried these norms to the new situation as habitual behaviour. What is more, these activities occurred in the context of a relatively stable social network (cf. Clemens and Cook, 1999).

By answering the above research questions, our study contributes to a greater understanding of the role that individual agency plays in the process of radical institutional change. That said, we do not offer a decisive theoretical argument on this complex issue. Making causal inferences on the role of individuals in institutional change remains challenging. In retrospect, we may identify seemingly influential individuals in terms of institutional change. However, our historical method reveals the blurriness of the situation and the relative lack of foresight at the level of individuals. This does not mean that managers should avoid potentially risky processes. On the contrary, our account can help managers grasp the potential power of simply acting in the face of ambiguity and uncertainty, especially if there is the possibility of acting in concert.

For the future, we identify two directions from which researchers might approach the role of individuals in institutional change processes. First, detailed historical exami-



nations of the causal pathways that lead to identifiable and significant institutional changes have the potential to further explicate the concept of improvisation. In the context of institutional change, improvisation would refer to the convergence of design and execution (Baker et al., 2003). Our historical evidence shows that actor-level improvisation and ad hoc problem solving can lead to the emergence of new institutions (despite the intention to preserve old institutional norms). This argument is analogical to Weick's (1993) theoretical work that emphasizes the role of improvisation and bricolage (Baker and Nelson, 2005) during acute crisis situations. For example, the survival of the team leader in the Mann Gulch catastrophe can be seen as an example of how bricoleurs 'can create order out of whatever materials were at hand' (Weick, 1993, p. 639). Bricoleurs, such as Gösta Serlachius and Rudolf Walden, live by catastrophes, as 'when situations unravel, this is simply normal natural trouble for bricoleurs'. Evidently, improvisation in the midst of critical institutional turbulence is a relevant research topic. In future research, such analytical focus on individuals could be the key to a better understanding of institutional change and the agency–structure problem.

Second, earlier empirical research on institutional change has not included time and temporality as factors that affect the direction and magnitude of change (cf. Lawrence et al., 2001). A message from our historical study is that the improvised activities of powerful individuals relative to the complexity and speed of the process are causally related to institutional changes. Thus, increased attention should be devoted to conceptualizing the individual-level cognition of time during an acute crisis. Relevant research issues include, for example, questions about the length of the time horizon of the focal actors (Das and Teng, 2001) and the extent to which actors feel time as a constraint (Ordonez and Benson, 1997) or as an opportunity (Crossan et al., 2005)? To approach time and improvisation from the point of view of causal explanation is an analytical challenge, but if successful it has the potential to contribute significantly to research on institutional change.

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NOTES

- [1] The theoretical foundation of the idea of path dependence advocates the principles of non-linearity and self-organizing, systemic behaviour (Arthur, 1989). Often the notion of path dependence is reduced to the simple idea of historical contingency and continuity in the institutional field.
- [2] Critical juncture can be defined 'as a period of significant change, which typically occurs in distinct ways in different countries (or in other units of analysis) and which is hypothesized to produce distinct legacies' (Collier and Collier, 1991, p. 29).
- [3] The Finnish Civil War was fought from 28 January to 16 May 1918 between the forces of the socialists, called 'Reds', and the forces of the non-socialist Senate, called 'Whites'. The Red Army was supported



by Bolshevik Russia, while the White Army received military assistance from the German Empire. The war ended in a White victory, but created a legacy of bitterness and deepened divisions within Finnish society. Approximately 36,000 people died on the battlefield, in terror campaigns, and in prison camps.

- [4] Such persons included Axel Solitander, originally an engineering school teacher, who was promoted to manage the Association of Finnish Forest Industries in 1919. Similarly, Hjalmar Procope rose to a powerful position in Finnish diplomacy after the war. Not all business leaders were interested in societal activities. Many took a more speculative role in the development and never acquired power in higher industry and society level processes.
- [5] Most of the archival documents were written in Swedish. The direct quotations were translated from Swedish to English by the authors.
- [6] The exact starting date of the Civil War is a matter of debate. For example, there were serious battles in Karelia already in 17–20 January 1918.
- [7] After the trade negotiations in Ukraine, Walden was appointed war minister of the new government of Finland (Juva, 1957). He also continued as the board chairman of Finnpap, but did not participate in the trade negotiations as actively as Serlachius.

APPENDIX

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G. A. Serlachius-museum, Mänttä

- Personal correspondence of Gösta Serlachius 1917–20 (GS).

The Central Archives of UPM-Kymmene, Valkeakoski

- Rudolf Walden's personal correspondence 1917–21 (RW).
- The Archives of the Finnish Paper Mills' Association; records of the Board of Directors and Annual Meetings, including appendices (AF).

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